

D.P.U. 95-8-CC (Phase I)

Investigation by the Department of Public Utilities on its own motion, into Western Massachusetts Electric Company's Conservation Charges, and the various components of those charges, including but not limited to the Company's Demand-Side Management monitoring and evaluation reports.

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ORDER ON CONSERVATION CHARGES TO BE EFFECTIVE MARCH 1, 1995I. INTRODUCTION

On November 15, 1994, Western Massachusetts Electric Company ("Company" or "WMECo") filed with the Department of Public Utilities ("Department") three reports associated with WMECo's evaluations of its demand side management ("DSM") programs. The first report, the 1993 Annual Report - Energy Calculations Reference Guide ("1993 Reference Guide"), sets forth the methodologies, assumptions and calculations used to determine the energy and demand savings resulting from the installation of DSM measures in 1991, 1992, and 1993. The other two reports, Northeast Utilities Energy Conscious Construction Program Prescriptive Area - 1992 Measure Installation Impact Evaluation and Energy Action Program Report on 1992 Measure Installations, present detailed descriptions of the Company's DSM Program monitoring and evaluation ("M&E") activities for those programs. The energy and demand savings estimates included in the 1993 Reference Guide were used by the Company in its calculations of lost base revenues ("LBR") and incentives that the Company proposes to recover through its conservation charge rates ("CC Rates").

On December 19, 1994, the Department issued an Order of Notice ("Notice") and directed the Company to publish said Notice. In the Notice, the Department stated that it intended to conduct an investigation of (1) the Company's CC Rates and the various components of those rates; (2) the Company's DSM savings estimates; (3) the Company's DSM M&E reports; and (4) alternative methodologies by which to calculate the LBR allowed for recovery by the Company. The Notice established January 4, 1995 as the deadline to file petitions to intervene and

established January 11, 1995 as the public hearing and procedural conference date. This investigation was docketed as D.P.U. 95-8-CC.

The Attorney General of the Commonwealth of Massachusetts intervened as of right in this investigation pursuant to G.L. c. 12, § 11E. The Conservation Law Foundation ("CLF") filed a petition for leave to intervene. In addition, Eastern Edison Company ("Eastern Edison"), Cambridge Electric Light Company ("Cambridge Electric") and Commonwealth Electric Company ("Commonwealth Electric") filed petitions for leave to intervene as limited participants. On January 11, 1995, the Department granted CLF full intervenor status and Eastern Edison, Cambridge Electric, and Commonwealth Electric limited participant status.

At the public hearing and procedural conference on January 11, 1995, the Company stated that it would submit its 1995 Conservation Charge Filing ("CC Filing") on January 17, 1995 and requested that the CC Rates take effect on March 1, 1995 (Tr. 1, at 9-10).¹ Because of the complexity of issues involved, the Department agreed to separate discovery and hearing schedules for the CC, M&E and LBR phases of this investigation (Tr. 1, at 10; see also, Hearing Officer Memorandum of January 12, 1995). This Phase I Order addresses the 1995 CC rates. The M&E and LBR aspects of this investigation will be addressed in a Phase II Order.

On January 17, 1995, the Company filed its proposed 1995 CC rates ("Initial CC Rates") (Exh. WM-1). On January 30, 1995, the Company filed revised 1995 CC rates ("Revised CC

¹ In Western Massachusetts Electric Company, D.P.U. 94-8A-CC (1994), the Department approved CC rates to go into effect on March 1, 1994 and to remain in effect until February 28, 1995. The CC rates approved in this Order shall be in effect from March 1, 1995 through February 28, 1996, subject to reconciliation following Phase II of this proceeding.

Rates"), stating that the Revised CC Rates were submitted as an alternative to the Initial CC Rates (Exh. WM-2). WMECo stated that the Revised CC rates were submitted in order to be fully responsive to the Department's directive in Western Massachusetts Electric Company, D.P.U. 94-8A-CC (1994), to take affirmative steps to foster rate continuity (id.).

On February 8, 1995, the Department conducted a hearing and a technical session on the Initial CC Rates and Revised CC Rates. The evidentiary record includes eleven information requests and four record requests as exhibits. The Company submitted three exhibits that were accepted into evidence.

II. 1995 CONSERVATION CHARGES

A. Introduction

The Company used a three-step method in calculating its proposed CC rates. First, the Company determined each cost component of the total DSM revenue requirement for recovery on a program-by-program basis (Exh. WM-1, Att. A at 1). Then the costs for each program were totalled and allocated to the individual rate classes based upon the number of participants or dollars rebated for measures installed in each rate class for each year (id.). Finally, CC rates were calculated for each rate class by dividing the costs to be collected from each rate class over the projected energy sales for that rate class (id., Summary).

B. Total 1995 DSM Revenue Requirement

1. The Company's Proposal

The Company's filing shows that its total 1995 DSM revenue requirement is \$22,863,055 (id.). This amount comprises the following components: projected 1995 program expenditures

(\$15,800,000);² deferred program costs and associated carrying charges (\$354,578); performance contracting costs (\$81,119); 1995 lost base revenues (\$12,003,461); the 1994 incentive and associated carrying charges (\$983,803); and the reconciliation of over-recovery of DSM costs for 1992, 1993, and 1994 (\$6,359,906) (*id.*).

2. Analysis and Findings

The Department has reviewed the components of the Company's CC revenue requirement. The Department finds that the 1995 program expenditures are consistent with the DSM budget contained in the Settlement approved by the Department in Western Massachusetts Electric Company, D.P.U. 92-88 (1992) ("D.P.U. 92-88"). The Department finds that the deferred program costs are consistent with the Settlement approved by the Department in Western Massachusetts Electric Company, D.P.U. 92-13 (1992) ("D.P.U. 92-13"). The Department finds that the Company's calculation of LBR is consistent with the Settlement approved by the Department in D.P.U. 92-88. The Department finds that the Company's incentive calculation is consistent with the method agreed upon in the Settlement in D.P.U. 92-88. Finally, the Department finds that the Company's performance contracting costs have been sufficiently substantiated. Accordingly, the Department approves the 1995 DSM revenue requirement as submitted. The Department notes that the calculation of LBR and of the incentive will be reconciled when the Department completes its review of the savings estimates in Phase II of this proceeding.

² Program expenditures include payroll costs, administrative costs, and other non-payroll costs (Exh. WM-1, Att. A, Summary table).

C. Allocation of DSM Revenue Requirements

1. The Company's Proposal

The Company developed its allocation of DSM revenue requirements in the following manner: (1) the Company assigned program costs to the programs for which they were incurred (Exh. WM-1, Att. A, Summary 2); (2) the Company assigned 1995 administrative costs to programs in proportion to the 1995 direct program costs (id.); (3) the Company assigned LBR costs to programs based on the savings generated by each program (id., 1995 Work Paper F-1); and (4) the Company allocated the incentive based on lifetime energy savings achieved in each program (id., 1995 Work Paper G). Next, the Company allocated program costs to the different rate classes based on the number of participants from a given rate class for residential programs, and based on the number of dollars rebated to customers in a given rate class for commercial and industrial programs (id., Summary 3A & 3B).

2. Analysis and Findings

The Department has reviewed the Company's allocation of costs to each rate class. The Department finds that, aside from administrative costs, the allocation is consistent with the allocation that was approved by the Department in D.P.U. 94-8-CC. The Department notes that the Company has modified its allocation of administrative costs in a manner consistent with the Department's directive in D.P.U. 94-8A-CC at 9.

D. Calculation of CC Rates

1. The Company's Proposal

On January 17, 1995 the Company submitted Initial CC Rates that were calculated to

collect the 1995 DSM revenue requirement over the ten-month period between March and December of 1995 (Exh. WM-1, Att. A, 1995 Summary; Exh. DPU-IR-4-1). In support of its calculations, the Company stated that, according to accepted accounting practice, expenditures in a given calendar year should be fully recovered by the conclusion of that calendar year, that the proposed method would simplify the preparation and review of CC rate calculations, and that the method is consistent with the Settlement in D.P.U. 92-13, which provided for the recovery of DSM program costs for 1992 and 1993 in 1992 and 1993, respectively (Exh. DPU-IR-4-1; D.P.U. 92-13, Settlement at 5; Tr. 2, at 20-22). The attached Table 1 shows the Initial CC Rates.

Subsequently, on January 30, 1995 the Company submitted Revised CC Rates, which the Company stated were developed in response to the Department's directive in D.P.U. 94-8A-CC to take affirmative steps to foster rate continuity (Exh. WM-2, at 1). The Company stated that, for all but the T-2 rate class, the Revised CC Rates were calculated to collect the 1995 revenue requirement and a projected 1996 revenue requirement over the MWH sales projected for the 22-month period March 1995 through December 1996.³ The Company stated that the revised rate for the T-2 rate class was selected through discussions with nonutility parties ("NUPs"), and is more consistent with rates allowed in D.P.U. 92-13 (Exh. DPU-IR-5-1). Although the Company projected that the proposed T-2 rate would result in an expense deferral of approximately \$3.4 million for calendar year 1995, the Company testified that its proposal was an attempt to balance its competing objectives of rate minimization and comprehensive program delivery for these

³ The Company stated that, although it used certain assumptions regarding 1996 DSM expenditure levels in the calculation of the Revised CC Rates, these assumptions did not reflect the Company's final position on levels of program implementation in 1996 (Exh. WM-2, at 1).

customers (id.; Tr. 2, at 36-37). The attached Table 1 shows the Revised CC Rates.

In response to a Department information request, the Company submitted CC rates that were calculated so as to collect the 1995 DSM revenue requirement over the twelve-month period between March 1995 and February 1996 ("Twelve-month CC Rates") (Exh. DPU-IR-4-1). The Company stated that it opposed these rates as they would "unfairly delay the full recovery of projected costs, resulting in a mismatch between cost recoveries and expense outlays by the Company" (id.). The Company testified that the Twelve-month CC Rates were artificially low as the 1995 Revenue requirement had been offset by two months of recoveries in January and February of 1995; thus it would be inappropriate to spread the remaining 1995 costs over twelve months (Tr. 2, at 26-31). Although the Company set the 1994 CC Rates to collect the 1994 revenue requirement over twelve months between March 1994 and February 1995, the Company stated that this was an error (id. at 25). The attached Table 1 shows the Twelve-month CC Rates.

2. Positions of the Parties

The Company recommends that the Department approve the Revised CC Rates in their entirety for the period March 1995 through February 1996 (Company Brief at 3). The Company states that it would oppose "any attempt to pick and choose" between the Initial CC Rates and the Revised CC Rates (id.).

CLF supports the Companies Revised CC Rates, stating that the proposal is a reasonable attempt to manage CC rates and avoid excessive annual fluctuations in CC rate levels (CLF Letter Brief at 1). CLF recommends that the Department accept the Revised CC Rates in their entirety

(id.). CLF emphasizes that its support of the Revised CC Rates does not indicate support of any of the Company's assumptions regarding 1996 expenditure or program delivery levels (id. at 2). The Attorney General does not oppose the Revised CC Rates based on the stipulation that these rates are not intended to preclude any party from addressing issues concerning rates in the other phases of this proceeding (Attorney General Letter of February 1, 1995 to the Department).

3. Analysis and Findings

The Company has presented three sets of CC Rates, each designed to recover the 1995 DSM revenue requirement using different recovery periods and assumptions. The Company's Initial CC Rates were designed to collect twelve months of expenditures over a ten-month period, although the CC rates would be in effect for the twelve months between March 1995 and February 1996. Therefore, the Department finds that the Initial CC Rates are inappropriate because they unnecessarily inflate the 1995 CC rates by collecting the revenue requirements over a period of ten months rather than twelve months.

While the Company states that its Initial CC Rates were calculated in a manner consistent with the Settlement in D.P.U. 92-13, the Department finds that the method of calculating the Initial CC Rates is not acceptable as it is neither dictated by precedent nor consistent with the one-year period for which the CC Rate will be in effect. Although the Settlement in D.P.U. 92-13 provided for the recovery of 1992 and 1993 expenditures in those years, respectively, the Department finds that the Settlement did not establish a method of calculation to be used in subsequent years. The Department notes that the terms of a settlement agreement do not establish Department precedent. See Western Massachusetts Electric Company, D.P.U. 88-8C,

D.P.U. 89-8C, D.P.U. 90-8C, D.P.U. 91-8C, D.P.U. 92-8C-A, D.P.U. 93-8C-1 at 20 (1994); See also, Massachusetts Electric Company, D.P.U. 94-112, at 7 (1994); Eastern Edison Company, D.P.U. 94-110, at 6).

The Department is extremely concerned over the high level of some of the Company's CC rates. Calculation methods that result in unnecessarily high CC rates are inappropriate. Although the Department recognizes the Company's argument in favor of the recovery in a calendar year of expenditures made in that calendar year, the Department's concern over the Company's high CC rates overrides its desire for ease in calculating and reviewing the Company's CC rates. Accordingly, the Department finds that the Company's Initial CC Rates are inappropriate and rejects them for implementation on March 1, 1995.

The Company's Revised CC Rates, for all rate classes but the T-2 class, were designed to levelize the CC rates over 1995 and 1996. As a preliminary matter, the Department recognizes the Company and the NUPs' effort to foster rate continuity. However, the Department notes that, for most of the rate classes, rate continuity would be accomplished within the revised CC Rates by over-recovering DSM expenditures during 1995, in anticipation of under-recovering DSM expenditures during 1996.⁴ The Department observes that this approach may be appropriate if 1996 DSM expenditures could be anticipated with a reasonable degree of certainty. However, the Department notes that the 1996 expenditures are not certain for two reasons. First, both the Company and CLF emphasize that assumptions regarding 1996 program expenditures that were incorporated into the Revised CC Rates calculations do not represent their final positions

⁴ As shown in Table 1, the Revised CC Rates for the R-3, G-0, and 24 rate classes are significantly higher than the Initial CC Rates.

regarding such expenditures. Further, the Company's program expenditures for 1996 have not yet been the subject of a proceeding before the Department. Second, the Department has indicated in the Notice its intention of investigating alternative methods by which to calculate WMECo's LBR.⁵ Because of these uncertainties, the Department finds that the Revised CC Rates are unlikely to achieve the goal of rate continuity, and, therefore, rejects the Revised CC Rates for the period March 1995 through February 1996.

However, the Company submitted Twelve-month CC Rates that were calculated to collect the twelve months of expenditures for 1995 (and any under- and over-recoveries from previous years) over the twelve months for which the CC rates will be in effect, between March 1995 and February 1996. As shown in Table 1, the Twelve-month CC Rates for most rate classes are lower than both the Initial CC Rates and the Revised CC Rates proposed by the Company. The Department finds that the Company has not presented a compelling reason for departing from the method for calculating the CC rates based on the period for which the rates will be in effect. Furthermore, the Department finds that the Twelve-month CC Rates are the most appropriate rates for the following reasons: (1) the Department is concerned over the high level of some of the Company's CC Rates; (2) the calculation of the Twelve-month CC Rates is consistent with the method used in setting the CC rates for 1994, which have been successfully implemented and reviewed; (3) these CC rates are consistent with the Company's CC rate cycle which extends from March through February, and with its fuel charge cycle; and (4) these CC rates are more likely to

⁵ In two recent decisions the Department has directed other electric companies to modify the calculation of LBR for cost-recovery purposes, resulting in lower LBR values than the methodologies previously utilized by them. Eastern Edison Company D.P.U. 94-4-CC (1994). Boston Edison Company D.P.U. 95-1-CC (1995).

result in rate continuity than the Initial CC rates or the Revised CC Rates. Therefore, the Department directs the Company to implement the Twelve-month CC Rates as indicated in Table 1.⁶

The Department notes that, for the T-2 rate class, the CC rate of the Twelve-month CC Rates would be greater than that proposed by the Company in its Revised CC Rates. In consideration of the Company's testimony regarding the importance of maintaining comprehensive program delivery for these customers while keeping rates low (see Tr. 2 at 36-37), the Department will entertain a motion by the Company, if submitted on or before March 2, 1995, to implement the Revised CC Rates charge of 0.8000 cents per KWH for the T-2 class, rather than the Twelve-month CC Rates charge of 0.8984 cents per KWH.

⁶ In Exhibit DPU-IR-4-1, the Company stated that the G-2 rate should remain 1.2 cents/KWH through December 1995 in accordance with D.P.U. 94-8-CC (Phase I). The Department has determined that, because of the high level of this rate, it is appropriate to adjust the G-2 rate in accordance with the Twelve-month CC calculation.

III. ORDER

Accordingly, after due consideration, it is

ORDERED: That the Western Massachusetts Electric Company shall implement the twelve-month CC rates as indicated in Table 1 attached to this Order. These CC rates shall go into effect on March 1, 1995, and shall be subject to reconciliation following the Department's Order in the forthcoming monitoring and evaluation proceeding; and it is

FURTHER ORDERED: That the Western Massachusetts Electric Company shall comply with all directives in this Order.

By Order of the Department,

Kenneth Gordon, Chairman

Mary Clark Weber, Commissioner

Janet Gail Besser, Commissioner

TABLE 1

SUMMARY OF CC RATES

(Cents per KWH)

	R-1	R-3	G-0	G-2	T-2	PR	S-1	24
1994 CC Rates	.3278	.8935	.4181	1.200	.5390	.0029	.3080	.6646
1995 CC Rate Options:								
Initial CC Rates	.5041	.5019	.2306	1.200	1.0939	.0017	.2468	(.0134)
Revised CC Rates	.5000	.8000	.4200	1.200	.8000	.0020	.2500	.2300
12-Month CC Rates	.4034	.3472	.1867	1.0252	.8984	.0013	.1975	(.0104)

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).

